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**FISCAL IMPACT STATEMENT**

**LS 7821**

**BILL NUMBER:** HB 1702

**NOTE PREPARED:** Jan 10, 2005

**BILL AMENDED:**

**SUBJECT:** Slot Machines at Racetracks.

**FIRST AUTHOR:** Rep. Murphy

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** The bill authorizes slot machines at racetracks and imposes a wagering tax of 40% of the adjusted gross receipts from slot machine wagering.

The bill redirects certain Riverboat Admissions Taxes from the Horse Racing Commission to the Economic Development Corporation (Corporation).

The bill provides for the annual distribution of Slot Machine Wagering Taxes before July 1, 2007, as follows: (1) the first \$27,205,284 to the Horse Racing Commission to be used in the same manner as Riverboat Admissions Taxes are currently used; and (2) the remainder to the Corporation. The bill provides for the annual distribution of slot machine taxes after June 30, 2007, to the Corporation. The bill requires the corporation to allocate: (1) \$48,000,000 annually to the Capital Improvement Board for a convention center stadium project; (2) \$100,000 annually to the excluded cities for economic development; and (3) \$1,000,000 annually to the Indiana Sports Corporation. The bill authorizes the Corporation to allocate revenues to economic development projects throughout Indiana.

The bill also imposes a Horse Racing Promotion Fee of 13% of the adjusted gross receipts from slot machine wagering. It also provides for the distribution of the fees to purses, breed development, and the associations representing owners, breeders, and trainers.

The bill also makes an appropriation.

**Effective Date:** July 1, 2005.

**Summary of Net State Impact:** The potential net impact to the state PTRF under this bill would be the elimination of the current Riverboat Admission Tax supplemental funding of approximately \$10 M annually beginning in FY 2006.

**Explanation of State Expenditures:** *Indiana Gaming Commission (IGC):* The bill requires the IGC to regulate and administer slot machine operations at the state's two horse racing tracks. The IGC would incur additional administrative expenses as a result. However, the bill provides slot machine operation licensees and slot machine supplier's licensees bear the cost of any investigation by the IGC relating to the licensee. To the extent that the IGC incurs expenses beyond the investigatory functions, this bill does not provide any funding for reimbursement for these expenses.

*Department of State Revenue:* DOR could incur additional audit expenses since the bill does not provide for any inspectors or agents present while gambling is conducted at the facilities, as is the case of the riverboats.

*Penalty Provisions:* The bill establishes a Class D felony for various types of violations at slot operations. A Class D felony is punishable by a prison term ranging from six months to three years or reduction to Class A misdemeanor depending upon mitigating and aggravating circumstances. The average expenditure to house an adult offender was \$21,514 in FY 2004, ranging from a low of \$16,645 to a high of \$49,281. (This does not include the cost of new construction.) If offenders can be housed in existing facilities with no additional staff, the average cost for medical care, food, and clothing is approximately \$1,825 annually, or \$5 daily, per prisoner. The estimated average cost of housing a juvenile in a state juvenile facility was \$59,574, with the costs ranging from a low of \$52,420 to a high of \$77,674. The average length of stay in Department of Correction (DOC) facilities for all Class D felony offenders is approximately ten months.

**Explanation of State Revenues:** *Summary:* The bill authorizes the operation of slot machines at Hoosier Park and Indiana Downs. The bill limits the number of slot machines at each facility to 2,500. The bill imposes a 40% Wagering Tax and a 13% Horse Racing Promotion Fee

(1) The 40% Wagering Tax imposed at the two facilities is estimated to generate \$32.5 M to \$70.8 M annually. (It is estimated that AGR from the two facilities could potentially range from approximately \$81 M to \$177 M.) Assuming a 12- to 15-month start-up period, it is estimated that no revenue from either the tax or the fee will be generated in FY 2006 and about 9-12 months of revenue could potentially be generated in FY 2007. The start-up period could be reduced to the extent that operations in a temporary facility are established. Until the end of FY 2007, the first \$27.2 M annually from the Wagering Tax is distributed to the Indiana Horse Racing Commission (IHRC) for horse racing purposes. The remainder of the Wagering Tax, plus Riverboat Admission Tax collections that would otherwise go to the IHRC are distributed to the Indiana Economic Growth Fund. Beginning in FY 2008, all revenue from the Wagering Tax plus any Riverboat Admission Tax collections that would otherwise go to the IHRC are distributed to the Fund. The Indiana Economic Growth Fund is administered by the Indiana Economic Development Corporation, and money is appropriated from the Fund for specified purposes. Estimated annual revenue to, and distributions from, the Fund are described in the table below.

<b>Revenue to the Indiana Economic Growth Fund</b>	<b>FY 2007</b>	<b>FY 2008 - FY 2037</b>
Slot Machine Wagering Tax	\$5.3 M - \$43.6 M *	\$32.5 M - \$70.8 M
Riverboat Admission Tax Collections	17.2 M	17.2 M
<b>Total Revenue to Fund</b>	<b>\$22.5 M - \$60.8 M</b>	<b>\$49.7 M - \$88.0 M</b>
<b>Distributions from the Indiana Economic Growth Fund</b>	<b>FY 2007</b>	<b>FY 2008 - FY 2037</b>
Marion County Capital Improvement Board	\$22.5 - \$48.0 M	\$48.0 M
Excluded Cities for Economic Development (\$100,000 per city)	0 - 0.4 M	0.4 M
Indiana Sports Corporation	0 - 1.0 M	1.0 M
Local Convention and Economic Development Projects	0 - \$11.4 M	\$3.3 M - \$38.6 M
<b>Total Distributions from the Fund</b>	<b>\$22.5 M - \$60.8 M</b>	<b>\$49.7 M - \$88.0 M</b>
* In FY 2006 & FY 2007, the first \$27.2 M of wagering taxes will be distributed directly to the Indiana Horse Racing Commission, with the remaining revenue deposited in the Indiana Economic Growth Fund.		

(2) It is also estimated that the 13% Horse Racing Promotion Fee imposed at the two facilities could potentially generate \$10.6 M to \$23 M annually. The revenue from the Promotion Fee is distributed as follows: (1) 81% to purses and the horsemen's associations, and (2) 19% to the breed development funds. The total to purses and horsemen's associations is distributed as follows: (1) 46% for thoroughbred purposes; (2) 46% for standardbred purposes; and (3) 8% for quarterhorse purposes. The total to the breed development funds is distributed in the same proportions.

Caveats: The fiscal estimates are not adjusted to account for the potential negative effect that riverboat gaming operations may have on slot machine wagering at Hoosier Park and Indiana Downs. Thus, actual Wagering Tax revenue could potentially be less than estimated to the extent that these facilities share their markets with riverboat casinos. In addition, the fiscal estimates do not account for potential decline in Admission and Wagering Tax revenue at the riverboat casinos due to slot machine operations at Hoosier Park and Indiana Downs. These potential competitive impacts on the fiscal outcomes are indeterminable.

Background: Existing Riverboat Admission Tax to Horse Racing: Until the end of FY 2007, the bill distributes \$27.2 M from the Slot Machine Wagering Tax to replace (1) Riverboat Admission Tax collections and (2) the annual supplemental payment from PTRF for replacement of Admission Tax shortages currently funding horse racing programs. Beginning in FY 2008, the Slot Machine Wagering Tax is no longer utilized to replace the Riverboat subsidy to horse racing. The bill also redirects actual Riverboat Admission Tax collections otherwise earmarked for the horse racing subsidy to the Indiana Economic Growth Fund; and supplemental Admission Tax payments are not to be made from the PTRF. Under current statute, \$0.65 per \$3.00 Admission Tax paid is distributed to the IHRC for purses, horsemen's associations, breed development, and the race track subsidy. This annual distribution is guaranteed at \$27.2 M, with the supplemental payment from PTRF making up the difference between the guarantee amount and actual Admission Tax collections. The supplemental payment is made in the fiscal year following the fiscal year of the shortage. In FY 2004 approximately \$17.2 M in Admission Tax collections was distributed to the IHRC. Thus, the supplemental payment from PTRF for the

FY 2004 shortage totaled approximately \$10 M.

**License Fees:** The bill provides for a slot machine operator license and a slot machine supplier's license. The initial slot machine operator's license would be effective for 5 years, with the initial fee and annual renewal fee determined by the Indiana Gaming Commission. The annual fee for a supplier's license would be \$5,000. The bill requires a person to obtain a supplier's license to furnish slot machines to the horse race tracks.

**Fiscal Impact Details:** The fiscal impact is based on a range of estimates of patronage at the facilities once slot operations commence. The estimates are based on patron growth rates observed at Iowa racing venues after the installation of slot machines in 1995. Reported and imputed patron totals for existing facilities are utilized to develop estimates for operations at Hoosier Park. The Hoosier Park estimate is scaled down to derive an estimate for operations at Indiana Downs based on projections by gaming industry analysts. It is assumed that the AGR per patron equals \$73 to derive AGR totals for the locations.

**Penalty Provisions:** The bill makes it a Class A misdemeanor for a person to knowingly or intentionally aid, induce, or cause a person less than 21 years of age and who is not an employee of a pari-mutuel pull tab operation to enter or attempt to enter the operation. It also makes it a Class A misdemeanor for a person who is less than 21 years of age and who is not an employee of a slot operation to knowingly or intentionally enter or attempt to enter the operation. The bill also establishes a Class D felony for various types of cheating at slot operations.

If additional court cases occur and fines are collected, revenue to both the Common School Fund and the state General Fund would increase. The maximum fine for a Class A misdemeanor is \$5,000, and the maximum fine for a Class D felony is \$10,000. Criminal fines are deposited in the Common School Fund.

If the case is filed in a circuit, superior, or county court, 70% of the \$120 court fee that is assessed and collected when a guilty verdict is entered would be deposited in the state General Fund. If the case is filed in a city or town court, 55% of the fee would be deposited in the state General Fund.

**Explanation of Local Expenditures:** *Penalty Provision:* A Class A misdemeanor is punishable by up to one year in jail. The average daily cost to incarcerate a prisoner in a county jail is approximately \$44.

**Explanation of Local Revenues:** *Marion County CIB:* The bill distributes up to \$48 M annually from the Indiana Economic Growth Fund until FY 2037 to the Marion County Capital Improvement Board for a convention center and stadium project. It is estimated that the distribution could potentially total \$22.5 M to \$48 M in FY 2007 and \$48 M each year until June 30, 2037.

**Excluded Cities:** The bill distributes \$100,000 annually beginning in FY 2007 from the Indiana Economic Growth Fund to each of four excluded cities (Beech Grove, Lawrence, Southport, and Speedway) in Marion County for economic development projects.

**Local Convention and Economic Development Projects:** Beginning in FY 2007, after distributions are made from the Indiana Economic Growth Fund to the Marion County Capital Improvement Board, the excluded cities, and the Indiana Sports Corporation (\$1,000,000), the remaining money in the fund is distributed for the purpose of supporting convention and economic development projects across the state. Of this remaining money, 70% is to be allocated for selected projects in the 10 counties with riverboats (i.e., Dearborn, Harrison, Lake, LaPorte, Madison, Marion, Ohio, Orange, Switzerland, and Vanderburgh) and 30% is to be allocated

for selected projects located in any county.

*Penalty Provision:* If additional court actions occur and a guilty verdict is entered, local governments would receive revenue from the following sources: (1) The county general fund would receive 27% of the \$120 court fee that is assessed in a court of record. Cities and towns maintaining a law enforcement agency that prosecutes at least 50% of its ordinance violations in a court of record may receive 3% of court fees. If the case is filed in a city or town court, 20% of the court fee would be deposited in the county general fund and 25% would be deposited in the city or town general fund. (2) A \$3 fee would be assessed and, if collected, would be deposited into the county law enforcement continuing education fund. (3) A \$2 jury fee is assessed and, if collected, would be deposited into the county user fee fund to supplement the compensation of jury members.

**State Agencies Affected:** Indiana Gaming Commission, Indiana Horse Racing Commission, Department of State Revenue, Department of Correction, Indiana Economic Development Corporation.

**Local Agencies Affected:** Marion County Capital Improvement Board; Local units; Trial Courts, local law enforcement agencies.

**Information Sources:** Indiana Sheriffs' Association; Department of Correction.

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